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Investigating Relationships between Relationship Quality, Customer Loyalty and Cooperation: An Empirical Study of Convenience Stores' Franchise Chain Systems

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Abstract

Franchising has become a way to minimise the risks of small business management. There has been little research into the factors that promote franchise relationship success. This study attempts to empirically examine the important elements (relationship quality, customer loyalty and cooperation), which might promote a successful long-term franchising relationship between franchisors and franchisees within the context of convenience stores in Taiwan. A model of these relationships was developed and tested. A total of 500 surveys were mailed to a random sample of convenience stores' franchisee owners among the four main franchisors in Taiwan. The results show that relationship quality positively influences the cooperation between franchisors and franchisees and is positively correlated with franchisee loyalty. Additionally, the cooperative behaviour between franchisees and franchisors is significantly associated with franchisees' loyalty.

Keywords: Relationship quality, Loyalty, Cooperation, Franchising

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Introduction

It is acknowledged that small business contributes to the nation's economic development. Franchising has become a way to minimise the risks of small business management. Little research has been investigated to determine the reasons for successful franchising relationships (Merrilees and Frazer, 2006). A poor franchising relationship between franchisors and franchisees could result in franchise failure, such as franchise termination and closure. Frazer and Winzar (2005) concluded that conflict between franchisors and franchisees can cause franchisee exits. Therefore, understanding relationship management is vital for the reasons contributing to franchise relationship success.

Given the complexities of the franchisor-franchisee relationship, the purpose of this research is twofold. First, we intend to develop and empirically test a model that investigates the influence of relationship quality, customer loyalty, and cooperation on franchising relationships. Based on previous literature, relationship quality, cooperation, and loyalty are essential elements in franchising relationships. Second, we aim to address a gap in the existing literature by examining factors that might lead to a successful long-term franchising relationship.

Conceptual framework and hypotheses

It is important to understand relationship management to strengthen a long-term franchising relationship. The success of a franchise system is based on the strength of the franchising relationships (Nathan, 2000). This interdependent relationship is widely regarded as a long-term relationship (Frazer, 2003). Relationship quality is an important indicator for determining the success of a long-term cooperative relationship in the franchise field (Monroy and Alzola 2005). Previous studies have variously conceptualised relationship quality as a higher-order construct (see for example; Wang, Liang and Wu, 2006). There is general agreement that trust, commitment and satisfaction are key dimensions of relationship quality (Beatson, Lings and Gudergan, 2008). In other words, high quality relationships are defined by high levels of trust, commitment and satisfaction (Beatson *et al.*, 2008). Consequently, in this research we adopt trust, commitment, and satisfaction as key characteristics of relationship quality within a franchise context.

Many organisations have found that building cooperative relationships with customers is a way to enhance competitive advantage (Cravens, 1995). Such cooperative relationships rely on a high level of trust. Previous study suggests that franchisees higher in trust and cooperation would enhance interactive relationships with the franchisor (Morrison, 1997). We hypothesise that the higher the level of trust the franchisees have, the higher the level of cooperation with their franchisor. Thus the following hypothesis:

H_{1-a} : Franchisees' perceived trust in the franchisor will positively affect their levels of cooperation with their franchisor.

Commitment often results in cooperation and enhances profitability (Jambulingam and Nevin, 1999). Commitment is not only an important feature to maintain a successful franchising relationship, but also an expression of franchisee willingness to engage in a relationship with

their franchisor (Frazer, 2003). Franchisees with higher commitment to their franchisor might display more cooperative behaviour. Thus the following hypothesis:

H_{1-b} : Franchisees' perceived commitment to the franchisor will positively affect their level of cooperation with their franchisor.

Franchisee satisfaction is one of the critical factors that contribute to successful franchising relationships (Frazer, 2003; Gauzente, 2003). Gauzente (2003) further suggests the satisfaction of channel members will encourage them to cooperate more fully. Spinelli and Birley (1998) concluded that franchisees with low levels of satisfaction exhibit poor cooperation and coordination with their franchisor. This study hypothesises that greater franchisee satisfaction leads to greater franchisee cooperation with their franchisor.

H_{1-c} : Franchisees' perceived satisfaction with the franchise system will positively affect their levels of cooperation with their franchisor.

In the franchise field, a successful franchising relationship relies on the parties trusting each other. A recent study by Chiou, Hsieh and Yang (2004) suggest that if franchisees have a high level of trust in their franchisor it will enhance their satisfaction and increase their intention to remain in the franchise system. This study posits that greater levels of franchisee trust will enhance loyalty.

H_{2-a} : Franchisees' perceived trust in a franchisor will positively affect their loyalty in the franchising relationship.

Commitment is also very important in franchising relationships, because the franchise arrangements last for several years. Both franchisee and franchisor need to be striving for mutual goals, such as maintaining quality relationships and achieving improved market share (Frazer, 2003). To maintain the continuity of the franchising relationship, it is important for franchisees to have a long-term commitment to their franchise network. Franchisee commitment directly influences their intention to remain in the franchise network and their propensity to recommend the franchise network to a friend (Gauzente, 2003). Franchisees high commitment to their franchisor will increase franchisees' loyalty. The following hypothesis is proposed:

H_{2-b} : Franchisees' perceived commitment to a franchisor will positively affect their loyalty to the franchising relationship.

In the franchise system, franchisee satisfaction plays an essential role in maintaining a long-term relationship with the franchisor. Satisfied franchisees will be loyal to the franchisor, leading to a stronger franchise network and reducing a conflict between the franchisor and the franchisee (Chiou *et al.*, 2004). When franchisees are satisfied with their franchisor, the level of franchisees' loyalty increases. With that in mind;

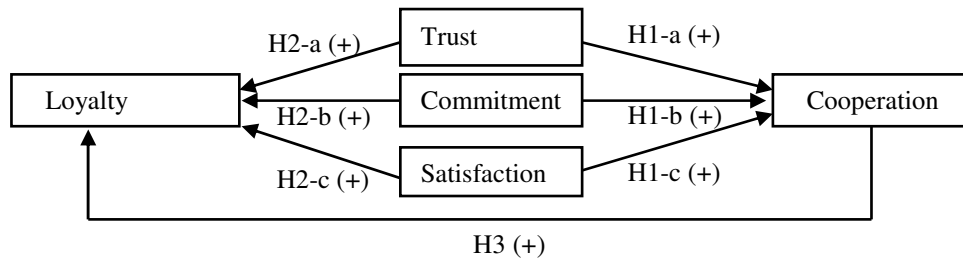
H_{2-c} : Franchisees' perceived satisfaction with the franchise system will positively affect their loyalty to the franchising relationship.

Franchising relationships need to be sustained over a long period of time. Cooperation between the franchisor and franchisee is essential for the franchise system to grow and prosper as a network (Frazer, 2003). Lawson-Body and O'Keefe (2006) suggest that a desire to maintain a valued cooperative relationship should in turn impact loyalty. This study thus proposes that if franchisees and franchisors have a highly cooperative franchising relationship, franchisees will have higher loyalty. The following hypothesis is proposed:

H_3 : Cooperation between franchisees and franchisors will positively affect franchisees' loyalty.

A full conceptual model representing these hypothesised relationships is given in Figure 1.

Figure 1 The conceptual framework



Research Methodology

The last three decades have seen rapid growth of the franchise chain system in Taiwan (Lai, 2006). Convenience stores are the fastest developing industry in franchise chain systems in Taiwan and the industry is becoming increasingly competitive (Taiwan Chain Store Almanac, 2007). It is essential to enhance a cooperative long-term franchising relationship between franchisors and franchisees to maintain the proportion of convenience stores and increase the competitive advantage among convenience stores in Taiwan. Therefore, in order to test these hypothesised relationships, data was collected from franchise owners working as the managers of their franchised convenience stores in Taiwan. A total of 500 surveys were mailed to a random sample of convenience stores' franchisees among the four main franchisors in Taiwan. The final sample size is 120 yielding a usable response rate of 24%. The majority of respondents (65 percent) are between 31 and 40 years old. Most respondents (66.7 percent) hold a Bachelors degree, have over four years franchise experience (69.2 percent), and have worked at least three years with their franchisor (79.2 percent). All of the constructs in this study were measured using adaptations of existing marketing scales (see Table 1). Responses were captured using a seven point likert scale anchored at strongly agree and strongly disagree.

Table 1 Measures Utilized

Construct	Measure	Modified From	No. of Items	Coefficient α
Relationship quality	Trust	Ivens and Pardo (2007)	5	0.73
	Commitment	Wemer (1997)	5	0.72
	Satisfaction	Gauzente (2003)	9	0.92
Customer loyalty	Renewal likelihood	Selnes (1993)	1	0.79
	Referral likelihood		1	
Cooperation	Information sharing	Mahama (2006)	2	0.83
	Problem solving		2	
	Willingness to adapt to change		2	

Results

We attempted to achieve content validity through the depth of literature search used to define the domain of the research and the use of established scales to measure the constructs in the study. Internal consistency was examined using coefficient α measures (Churchill, 1999). All coefficient α measures exceeded the 0.7 cut off suggested by Nunnally (1978) indicating adequate internal consistency for each of the scales in this study. The Coefficient α for all

scales is shown in Table 1 above. The conceptual model was tested using simple linear regression analysis in SPSS (Huizingh, 2007). The results of this are shown in Table 2 below. The results indicate that all of the hypothesised relationships conceptualised in this study were supported.

Table 2 Results of Regression Analysis

Dependent variable	Independent variable	Beta (β)	t-value	p-value
Cooperation	Trust	0.35	4.21	0.00**
	Commitment	0.17	2.15	0.03*
	Satisfaction	0.34	3.68	0.00**
$R^2 = 0.53$				
$F = 43.56^{**}$				
Customer loyalty	Trust	0.17	2.28	0.03*
	Commitment	0.29	4.12	0.00**
	Satisfaction	0.45	5.33	0.00**
$R^2 = 0.61$				
$F = 59.67^{**}$				
Customer loyalty	Cooperation	0.61	8.28	0.00**
$R^2 = 0.37$				
$F = 68.53^{**}$				

Discussion and implications

A number of studies have established several constructs in relation to franchising relationships, yet there are no studies that explore the interaction between relationship quality, loyalty and cooperation in a franchising relationship in Taiwan. The majority of studies on franchising are based in a western context and as franchising is an important way of doing small business and a growing area particularly in Asian contexts; there is a need for further investigation. This research has highlighted that small business owners operating in a franchise system should pay attention to the importance of relationship quality, loyalty and cooperation in enhancing competitive advantage. Relationship quality is regarded as a key factor that results in successful franchising relationships. Trust, commitment, and satisfaction were used to measure the strength of relationships between franchisors and franchisees. Significant relationships were found between relationship quality and cooperation in the franchising relationship. That is, relationship quality (measured as trust, commitment and satisfaction) influences cooperative behaviour between franchisors and franchisees. This result is consistent with the literature, supporting the association between relationship quality and cooperation on franchising relationship (Frazer, 2003; Clarkin and Swavely, 2006). Indeed, a successful long-term cooperative franchising relationship relies on a strong relationship between franchisors and franchisees.

The loyalty of franchisees can be generated through good interactions between franchisors and franchisees. Trust, commitment, and satisfaction were proposed to have a direct and positive effect on franchisees' loyalty. A positive relationship was found between relationship quality and franchisees' loyalty. Clearly, it is suggested that franchisors should focus on building close relationships with their franchisees to retain their loyalty. Moreover, positive associations were found between cooperative franchising relationships and franchisees' loyalty. That is, a high level of franchisee loyalty could be gained by a great cooperative franchising relationship. It is important for franchisors and franchisees to maintain a cooperative long-term franchising relationship because it results in a high level of loyalty from franchisees. The results show that relationship quality is crucial to maintaining a

successful franchising relationship. It suggests that trust, commitment, and satisfaction all result in franchisees being more likely to both continue a contract with an existing franchisor in the future and to recommend the franchisor to others.

This study also adds support to previous studies by examining the benefits of enhanced cooperative relationships between franchisors and franchisees in the franchise field. The results show that a cooperative relationship is positively related to behavioural outcomes. Franchisors should pay more attention to their franchisees and communicate with them in order to maintain a cooperative franchising relationship. Indeed, with the rapid and uncertain changes taking place in the franchise field, regular contact may be necessary in order for the franchisors to keep on top of events. Several practical studies in franchise management suggest that communication is the road to solid franchise relationships (Laurie, 2000). Franchisors who communicate effectively with their franchisees may enjoy fewer conflicts and less disruption in the franchising relationships (Frazer, 2003). If the relationship between the franchisor and franchisee can be consistently maintained, franchising provides many benefits and reduces many costs for small business (Chiou *et al.*, 2004). Franchisors should pay more attention to building and establishing strong franchising relationships with franchisees by developing several essential factors: trust, commitment, satisfaction, loyalty, and cooperation.

This study focuses on convenience stores' franchise chain systems in Taiwan. The generalisability of these results to other franchise systems, other industries, or other countries may be limited. Further replications of this work are necessary to examine the stability of our results in other contexts. Additionally, research in other cultural settings would help to increase the generalisability of this model. Other important variables could potentially influence the relationships between the constructs that this study may have omitted. Additional variables could be included in the proposed model. For example, communication might be a key factor that leads to a superior franchising relationship. While this was explored implicitly through cooperation the explicit investigation of it may yield more indepth understanding of this unique context. Franchisors who communicate effectively with their franchisees deal with fewer disputes and suffer less disruption in their operations (Frazer, 2003).

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